VZCZCXRO2596
RR RUEHBZ RUEHDU RUEHJO RUEHMR RUEHRN
DE RUEHTO #0675/01 2031441
ZNR UUUUU ZZH
R 211441Z JUL 08
FM AMEMBASSY MAPUTO
TO RUEHC/SECSTATE WASHDC 9128
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHLO/AMEMBASSY LONDON 0202

UNCLAS SECTION 01 OF 02 MAPUTO 000675

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: ECON ETRD PGOV PREL MZ
SUBJECT: ECONOMY SLOWS: ZIMBABWE, ENERGY PRICES FAULTED

¶1. (SBU) SUMMARY: The Government of Mozambique (GRM) reported first quarter 2008 GDP growth of 3.5 percent, down from 8.1 percent growth in the same quarter last year. Increases in prices of fuel and food--which appear to be negatively impacting the economy and minimizing GRM attempts to bring inflation into the single digits--have forced President Guebuza to publicly defend GRM policies in this area. South Africa's energy problems and the Zimbabwean economy have hurt Mozambique's exports, while the value of imports grew due to higher fuel and food prices--worsening Mozambique's balance of trade. U.S. imports of titanium ore from Mozambique increased 164.5 percent to $4.1 million in the first quarter, while U.S. overall exports to Mozambique remained almost steady at $38.8 million. While Mozambique's overall economic fundamentals are still fairly strong, the GRM seems to recognize that this recent negative economic news--particularly rising prices--could have a negative political impact, but has yet to take strong measures to respond. END SUMMARY.

GDP GROWTH SLOWS IN Q1, BUT SOME SECTORS STILL DYNAMIC

¶2. (U) The Government of Mozambique (GRM) reported lower preliminary estimates for 2008 first quarter economic performance compared to 2007, with overall GDP growth of 3.5 percent compared to 8.1 percent last year. Some sectors of the economy showed gains however, outpacing the average GDP growth rate. These dynamic sectors include financial services (29.4 percent increase), transportation and communication (16.4 percent increase), and industrial mining (12.6 percent increase). 2008 first quarter agriculture figures show 8 percent growth over the equivalent period of ¶2007.

FUEL AND FOOD PRICES UP; PRESIDENT DEFENSIVE

¶3. (U) Petroleum imports in the first quarter of 2008 grew nearly 20 percent to $115.7 million, equivalent to 15.5 percent of the value of all imports. Imported grain costs increased by 32 percent to $53.6 million in the first quarter. The domestic price of rice is up 28.9 percent from May 2007 and the price of wheat flour is up 39.4 percent in the same period, according to the Central Bank. President Guebuza appeared defensive on cost increases of fuel and food in an early July Frelimo Party meeting, outlining GRM steps towards food price mitigation efforts including a "Green Revolution" campaign to promote greater domestic food production. On fuel, Guebuza pointed to the removal of the VAT on diesel to neutralize increases in prices, as well as other unspecified diesel subsidies to assist the transportation sector. Over a 12-month period average annual inflation has risen to 10.4 percent as of June 2008, well above the GRM's target of mid single-digit inflation anticipated by December 2008. The month of June 2008 alone saw food price increases of 2 percent and gasoline price

increases of nearly 6 percent, according to the Central Bank.

-- ----
EXPORTS DOWN: ALUMINUM, ENERGY, ZIMBABWE TO BLAME
-- ----

¶4. (U) Mozambique's overall exports were down 7.1 percent in the first quarter. Aluminum ingot exports (from the Mozal smelter outside Maputo) fell in value by 13 percent to a value of $330 million--aluminum accounts for 60 percent of the value of Mozambique's exports. Mozambique's second biggest export, electricity, was valued at $52.4 million in 2008's first quarter. Overall, Mozambique exported 19.2 percent less electricity, due to both South African power company ESKOM transmission problems and because of power supply cuts to ZESA (the Zimbabwean state power company) due to lack of payment. Ernesto Gove, President of Mozambique's Central Bank, has also publicly blamed decreased exports in other areas on Zimbabwe's political instability, though initial data does not clearly show which sectors might be most affected.

-- --------
IMPORTS FROM MOZ TO U.S. INCREASE DUE TO TITANIUM ORE
-- --------

¶5. (U) Longstanding relationships with Europe and active trade with southern African neighbors mean that Mozambique's bilateral trade with the U.S. continues to be relatively small, although U.S. exports to Mozambique nearly doubled from 2006 to 2007. According to U.S. International Trade

Commission
(USITC) data, U.S. exports to Mozambique contracted slightly by 2.9 percent in the first quarter of 2008, totaling $38.7 million, of which $15.3 million were fuel and mineral oils, though there was significant growth (123 percent) in electrical machinery and equipment compared to the same time last year. U.S. imports from Mozambique in the first quarter grew 164.5 percent thanks almost exclusively to titanium ore exports of $4.1 million from a total export value of $5 million in the first quarter of 2008.

-- --
COMMENT: GROWTH, PRICES MAY HAVE POLITICAL COST
-- --

¶6. (SBU) Mozambique's economy -- while still a perennial leader among non-petroleum producing states in southern Africa -- appears to be slowing due to higher fuel and food prices along with the domestic economic impact of power transmission issues in South Africa and the continued economic degeneration of Zimbabwe. Though these external shocks are having an effect, the economy is still headed in a positve direction. Both Standard & Poor's and Fitch have upgraded Mozambique's country risk ratings from B to B , reflecting an overall reduction in external debt burden to $3.287 billion as of December 2007--further aided by Portugal's debt cancellation of an additional $393.4 million on July 1. It is clear, however, that both President Guebuza and the Central Bank are worried about the political impacts of continued increases in the prices of food and fuel highlighted by Guebuza's public defensiveness about his government's policy response in these areas. We do not anticipate either significant economic backsliding or a rapid return to strong growth figures. Nonetheless, we will continue to monitor public reaction to price increases and its potential impact on the political climate, particularly in the run-up to local elections in November this year, which may become a public referendum on the Guebuza administration in the runup to the general elections in 2009.
Chapman